STATE OF ILLINOIS ILLINOIS COMMERCE COMMISSION

Illinois Commerce Commission on its own motion) Docket No. 01-0705
Northern Illinois Gas Company d/b/a NICOR Gas Company)))
Reconciliation of Revenues collected under Gas Adjustment Charges with Actual Costs prudently incurred)))
Illinois Commerce Commission on its own motion)) Docket No. 02-0067
Northern Illinois Gas Company d/b/a NICOR Gas Company)))
Proceeding to review Rider 4, Gas Cost, pursuant to Section 9-244(c) of the Public Utilities Act)))
Illinois Commerce Commission on its own motion) Docket No. 02-0725
Northern Illinois Gas Company d/b/a NICOR Gas Company)))
Reconciliation of Revenues collected under Gas Adjustment Charges with Actual Costs prudently incurred)))

DIRECT TESTIMONY ON REOPENING

OF

MARK MAPLE

Senior Energy Engineer

Energy Division—Engineering Department

NOVEMBER 2003

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1 Q. Please state your name and business address. 2 Α. My name is Mark Maple and my business address is: Illinois Commerce 3 Commission, 527 East Capitol Avenue, Springfield, Illinois 62701. Q. By whom are you employed and in what capacity? 4 5 A. I am employed by the Illinois Commerce Commission ("Commission") as a Gas 6 Engineer in the Engineering Department of the Energy Division. 7 Q. Please state your educational background. 8 A. I hold a Bachelor of Science degree in Mechanical Engineering and a minor in 9 Mathematics from Southern Illinois University in Carbondale, Illinois. I am 10 currently enrolled in the MBA program at the University of Illinois at Springfield, 11 where I have taken 24 of the required 48 hours towards my degree. Finally, I am 12 a registered Professional Engineer Intern in the State of Illinois. 13 Q. What are your duties and responsibilities as a Gas Engineer in the Engineering 14 Department?

- 15 Α. My primary responsibilities and duties are in the performance of studies and 16 analyses dealing with the day-to-day and long-term operations and planning of 17 the gas utilities serving Illinois. For example, I review purchased gas adjustment 18 clause reconciliations, rate base additions, levels of natural gas used for working 19 capital, and review utilities' applications for Certificates of Public Convenience 20 and Necessity. I also perform utility gas meter test shop audits. Finally, I provide 21 expert testimony in cases before the Commission, including Docket 99-0127, in 22 which Nicor Gas Company sought permission to institute the performance-based 23 program currently under review.
- 24 Q. What is the subject matter of your testimony?

- A. This testimony presents the findings of my investigation, since July 2002, of Nicor
 Gas Company ("Nicor" or "Company"), involving the costs included in the
 Company's purchased gas adjustment clause ("PGA") in 1999 through 2002, and
 the Company's Gas Cost Performance Program ("GCPP" or "PBR"), which was
 in effect in 2000 through 2002. This investigation began when the Citizens Utility
 Board ("CUB") received a fourteen-page fax from a whistle-blower, alleging
 certain improprieties on the part of Nicor Gas surrounding the GCPP.
 - Q. What recommendations are you making in your direct testimony?

33 I make three recommendations as well as discuss some of Nicor's practices Α. 34 leading up to and during the PBR. First, I recommend that the Commission lower 35 the benchmark by \$983,511 for each of the three years the PBR was in place, to 36 reflect the actual costs of contracts signed by Nicor before the final order was 37 issued in 99-0127. 38 Second, I recommend that the Commission lower the benchmark by \$3,928,981 39 for each of the three years the PBR was in place, to reflect the correct amount of 40 capacity management credits that should have been included in the original 41 benchmark. 42 Third, I recommend that the Commission order Nicor to refund \$1,546,317 to 43 customers, due to capacity management credits that the Company should have 44 obtained for customers in 1999. 45 The combined impact of these three recommendations is a refund to customers 46 of \$8,915,056, as shown in the table below.

	Decrease in Benchmark or			
Recommendation	Costs	Applicable	Share	Refund
#1 (contracts)	\$983,511	3	50%	\$1,475,267
#2 (cap mgmt credits 2000-02)	\$3,928,981	3	50%	\$5,893,472
#3 (cap mgmt credits 1999)	\$1,546,317	1	100%	\$1,546,317
Total				\$8.915.056

Finally, my testimony addresses several of Nicor's acts and omissions related to the PGAs and the PBR from 1999 through 2002. This factual background supports in a general sense some of Staff witness Zuraski's adjustments, as well as my own.

Short Biographies on Company Employees Cited

During the discovery phase of this case, Staff deposed thirteen Nicor employees and former employees in order to help determine what had taken place at Nicor in regards to the PGAs and PBR. In my testimony below, I cite the transcripts of those depositions, as well as the testimony put forth by Nicor during the original 99-0127 PBR case. The reader may be unfamiliar with the various Company deponents and their positions and duties within the Company. Therefore, I provide in this section a basic description of the various deponents that I quote in my testimony.

62 George Behrens 63 Mr. Behrens became the Treasurer and Vice President of Administration of Nicor in early 2002. From 1996 to 2002, Mr. Behrens was Vice President of 64 Accounting for Nicor. Mr. Behrens was responsible for overseeing the financial 65 66 x x x x x x x x xx xxxxxxxx. Mr. Behrens was also a witness in 02-0067 and filed 67 68 testimony in support of the PBR. 69 Leonard Gilmore 70 Mr. Gilmore has been employed by Nicor for 24 years. Since 1995, he has been 71 the Manager of Pipeline Regulation and Supply Planning. Xxxxxxxxxxxx xxx x 72 73 xxxxxxxxxx. Mr. Gilmore was a witness in the 99-0127 PBR case, where he 74 testified in support of the PBR. Specifically, Mr. Gilmore was involved in the 75 conception of the various components of the benchmark, including the Firm 76 Deliverability Adjustment and the Storage Credit Adjustment. 77 Albert Harms 78 Mr. Harms has been employed by Nicor since 1972. He has held his current 79 position, Manager of Rate Research, for approximately 17 years. Among other

duties, Mr. Harms is in charge of overseeing the majority of filings made with the Illinois Commerce Commission. He also acts as a liaison to ICC Staff and assists Staff with its discovery process. Mr. Harms was a witness in the 99-0127 PBR case, and testified in support of the PBR. Beth Hohisel Theodore Lenart

93	Jeffrey Metz
94	Mr. Metz has been employed by Nicor x x x x x x x x x x x x x x x x x x x
95	x x xx x x x xxxxxxxxxxxxxxx xx x x x
96	x x x x x x x x xxxxxxxxxxxxxxxxxxxxxx
97	Assistant Vice President and Controller. In January of 2003, Mr. Metz was
98	promoted to the position of Vice President and Controller at Nicor. Xxxxxxx
99	x xxxxxxxx xxxx xxx xxx xxx xxx xxx xx
100	x x x x x x x x x x x x x x x x x x x
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109	xxxxxxxxxxxxx.

110 Lonnie Upshaw 111 112 positions related to gas transmission and storage operations, with his last 113 114 115 116 117 x x x xx xx x x xx. His employment was terminated shortly after the release of 118 the Lassar Report in 2002. 119 Low Cost LIFO Lavers in Storage 120 Q. Explain your understanding of Nicor's physical storage options. 121 Α. Nicor uses a combination of Company owned storage and leased storage 122 services. Nicor owns a number of underground storage fields in Illinois, which 123 make up the majority of the Company's storage capacity. Nicor also leases 124 storage from interstate pipeline companies to provide a seasonal price hedge, 125 extra peak day deliverability and balancing services. 126 Q. What accounting method does Nicor use for its storage inventory?

- 127 A. Nicor uses the LIFO ("Last In, First Out") inventory costing method. Thus, when
 128 Nicor withdraws gas from storage, it is assumed that the most recently created
 129 layers are removed first for accounting purposes.
- 130 Q. How does LIFO accounting affect the price of gas in storage?

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- A. At the end of each calendar year, Nicor totals the injections and withdrawals to
 determine if there was a net injection or withdrawal for the year. If there were a
 net injection, there would be a "layer" of gas created in inventory that is priced at
 the average cost of gas for the entire year. If there were a net withdrawal, the
 Company first reduces the top layer of storage gas. If the net withdrawal were
 large enough, the Company could eliminate one or more layers of inventory.
 - Q. How has LIFO accounting affected Nicor's storage inventory over the years?
 - A. Decades ago, Nicor experienced significant net injections, which created layers of storage gas. This gas was acquired at a price far below what the market charges today. As the storage fields were developed and end-of-year storage balances grew, these low-cost LIFO layers became increasingly "trapped", albeit strictly in an accounting sense. That is, due to the LIFO accounting method, it became increasingly unlikely that these lower priced layers would be accessed,

144		unless Nicor withdrew more gas than it injected over a number of consecutive
145		calendar years.
146	Q.	Has Nicor always recognized the embedded value of these low-cost LIFO
147		layers?
148	A.	Nicor may have been conscious that some of those layers were priced well below
149		current market prices. However, it did not seem to recognize the potential for
150		shareholders to tap into this value until late in the 1990's. x xxx x x x x x x x x x x x x x x x x
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153		x x xxxxxxxxxxxxxxxxxxxxxxxxxxxxx
154 155 156 157 158		X x x x x x x x x x x x x x x x x x x x
159	Q.	Did the Company take steps to further develop xxxxxxxxx idea for shareholders
160		to profit from the low-cost LIFO layers?
161	A.	Yes. In 1998, a group of Nicor employees were assembled into what became
162		known as the "Inventory Value Team". The mission of the team was to quantify

163		the value of the low-cost LIFO layers and develop strategies to extract that value		
164		for shareholders. X x x x x x x x x x x x x x x x x x x		
165		xx x xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx		
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167 168 169		Q. x xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx		
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174 175 176		A.		
177		Xxxx x x x xxx:		
178		Q. XXX X X XXXXXXXXXXXXXXXXXXXXXXXXXXXX		
179 180 181		A.		
182	Q.	Was the Inventory Value Team able to quantify the value of the low-cost LIFO		
183		layers?		

184 Yes. The Team wrote a report (the Inventory Value Team Report) in October Α. 185 1998 in which they quantified the value of LIFO layers. On page three of that 186 report, the Team valued the layers at a book value of \$128 million. Additionally, 187 the layers had a market value of between \$93 - \$203 million in excess of the 188 book value. See Attachment A, p. 3. What did the Inventory Value Team conclude? 189 Q. 190 Α. The team made a presentation to many of the Company's corporate officers and 191 high ranking supervisors, and recommended that the Company pursue a PBR for 192 the purposes of accessing the low-cost LIFO layers. On page 2, Roman II of the 193 team's report, it states, "We recommend that the company 'capture' the LIFO 194 inventory value by filing and implementing a Gas Rate Performance Plan (GRPP) 195 related to gas costs." (Attachment A, p. 2, NIC 003657). It is also clear x xx x x 196 197 that the existence of the low-cost LIFO layers played a large part in Nicor's 198 decision to implement a PBR... Xxxx x x x x: 199 200 XXXXXX XXXXX XXXXXXX XXXXXXXXXXXXXX 201 XXXX 202 Q. X XXXXX XXXXXXXX XXXX X

203 204		A. x x xxxxxxxxxxxxxxxxxx x x x x x x x
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218 219 220		Q.
221 222		A. xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx
223		Q. xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx
224		A. xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx
225	Q.	Do you believe that the Company would have pursued a PBR if there were no
226		low-cost LIFO gas?

227	A.	I believe that Nicor would not have pursued the PBR in 1999, absent the ability to
228		generate savings by tapping into the low-cost LIFO gas. X x x x x x x x x x x x x x x x x x x
229		XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
230		X x x x x x
231 232 233		Q.
234		$A. \qquad xx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx$
235		Xxxxxx
236 237 238 239		Q.
240		$A. \qquad x \times x \times x$
241		$Q. \qquad xx x x x x x x x x x x x x x x x x x$
242 243 244 245		A.
246		Additionally, consider the text from a presentation given by Nicor management:
247 248 249		"X X X X X X XXXXXXXXXXXXXXXXXXXXXX X X X

250 251 252		x x x x xxxxxxxxxxxxxxxxxxxxxxxxxxxxxx
253	Q.	Why do you believe that the existence of the low-cost LIFO layers was so critical
254		to the Company's acceptance of a PBR program?
255	A.	The LIFO layers were basically a guaranteed moneymaker in an otherwise risky
256		and uncertain PBR program. X x x x x x x x x x x x x xxxxxxxxxxx
257		
258		x x x x xx x xxx x xxxxxxxxxxxxxxxx x x
259 260		Q. x x x x xxxxxxxxxxxxxxxxxxxxxxxxxxxx
261		A. xxx xx x xxxxxxxxx.
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263		$A. \qquad x \times x$
264 265		Q. XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
266		A. xx x x x x xxxxxxxxxxxxxxxxxxxxxxxxx
267 268		Q.
269		$A. \qquad x \times x$

- Q. Given that the low-cost LIFO layers were so valuable and seemed to play such an important role in the decision to implement the PBR, did Nicor tell Staff and the other interveners about the significance of these layers during the 1999 case?
- A. No, they did not. The Company did not provide any information regarding the
 Company's plans to monetize the low-cost LIFO layers during the 1999 case.

 As I will discuss later, Nicor purposely withheld relevant documents from Staff in
 response to data requests, changed the format of reports to Staff to hide the
 LIFO benefit, and created a pervasive feeling throughout the corporation that no
 employee was to "highlight" any such information to Staff.
 - Q. Mr. Feingold makes the assertion on pages 40-42 of his direct testimony that even though Nicor might not have disclosed its plans for the LIFO layers, Staff should have been aware of the potential for Nicor to monetize the layers and profit from them. Do you agree with his assessment?

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A. No. First, one must understand that Staff is highly dependent on the Company to provide accurate and reliable information during cases. For much of the information concerning the Company's physical and financial transactions, Staff cannot go to a trade publication or to some third party for investigation. That

information must come from Nicor itself. As I will discuss later in testimony, Nicor withheld this information and misled Staff on its intentions concerning storage gas. It doesn't matter what had been provided in cases from previous years – all information relevant to the 1999 case should have been disclosed during that case. The fact of the matter is that Nicor did not disclose anything about either the status of its LIFO inventory or its intent to tap into that value.

Second, even if one accepts Mr. Feingold's premise that Staff members in PBR dockets should have known about the existence of the LIFO layers, that is still a far cry from Staff knowing that Nicor had discovered a viable scheme to monetize these low-cost layers by manipulating net withdrawals. In fact, Staff was repeatedly told in Nicor's testimony and data request responses during the 1999 PBR case that Nicor had no ability to change its storage withdrawal patterns. This is important because the LIFO layers could only be accessed if Nicor changed its withdrawal patterns, since on average Nicor had been injecting more gas than it had been withdrawing. Consider the testimony of Mr. Gilmore in 99-0127:

...The Company's ability to control the timing and quantity of withdrawals is therefore very limited. (Attachment C, Company's Response to Staff Data Request ENG 1.1, 99-0127).

307	Accordingly, the Company has no incentive under the GCPP to
308	inappropriately shift storage. (Gilmore Rebuttal, p.6, 99-0127).
309	Mr. lannello's reason for proposing alternatives to the Company's
310	computation is his claim that the Company has an incentive to manipulate
311	storage withdrawals. As I have shown, this claim is incorrect. (Gilmore
312	Rebuttal, pp. 6-7, 99-0127).
313	During oral arguments before the Commissioners, Company attorney Mr.
314	Mattson even scoffed at Staff's allegations that Nicor could manipulate storage
315	withdrawals, saying:
316	And they [Staff] said, ah-huh, we found a way you can manipulate the
317	system. In the real world that couldn't happen. (emphasis
318	added)(Transcript of November 2, 1999 Oral Arguments, p.55).
319	Third, as explained later in my testimony, Nicor made it a point to "not highlight"
320	its intentions of monetizing the LIFO layers. Thus, as xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx
321	xxxxxxxx, acknowledged during his deposition,
322	Xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx
323	XXXXXXXXXXXXXXXX X X X X X X X X X X X

Finally, Nicor was using practices that were new to Staff. Knowing that the Company had value stored in low-cost LIFO layers did not endow Staff with the knowledge of how or if Nicor would extract that value. Staff attempted to investigate Nicor's potential to manipulate storage withdrawals. But because Nicor provided Staff with incomplete answers and misleading testimony, Staff was unable to detect Nicor's intentions to monetize the LIFO layers.

Inflation of the Firm Deliverability Adjustment Component

Q. What is the Firm Deliverability Adjustment?

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335 A. The Firm Deliverability Adjustment (FDA) is one of the components of the PBR
336 benchmark. It was conceived by the Company and accepted by the Commission
337 in the 1999 PBR case (Docket 99-0127). The FDA was set at \$116,582,612 for
338 the duration of the PBR and did not fluctuate with the market. The FDA was an
339 attempt to represent Nicor's annual fixed costs for reserving firm transportation
340 and purchased storage capacity, less credits received by the Company when it

341		releases excess capacity, sells excess gas, or conducts certain other
342		transactions.
343	Q.	How did the Commission establish the \$116,582,612 FDA value in Docket 99-
344		0127?
345	A.	The Commission agreed to use Staff's methodology of averaging the projected
346		costs and credits over the first two years of the PBR program, 2000 and 2001
347		since the benchmark would only be in place for two years before a review was
348		initiated. (Section 9-244(c) of the Illinois Public Utilities Act mandated that the
349		Commission review the program after two years to ensure that it was meeting its
350		objectives.)
351	Q.	How did Staff project the costs and credits that Nicor was likely to incur and
352		receive during 2000 and 2001?
353	A.	Many of the pipeline and storage costs were known because the Company had
354		already signed multi-year contracts. However, there were two uncertain issues -
355		1) Nicor's estimates of capacity management credits to be earned during the
356		PBR; and 2) the costs to reserve capacity on the Midwestern and Tennessee
357		Pipelines. Staff contested the Company's original positions with respect to these
358		two issues.

359 Q. Did the Commission side with Nicor or Staff on these two issues? 360 Α. Actually, the Commission reached a compromise on both issues. 361 Q. Was the Commission provided with all the relevant information necessary to 362 make a sound determination on those issues? 363 No. Nicor withheld and/or manipulated crucial information throughout the 1999 Α. 364 docket. I believe that had Staff and the Commission known all of the facts, the 365 Commission would have reached a different conclusion. Given that the 366 information was purposely withheld, I believe that the Commission should 367 reconsider its decision, having the benefit of all relevant information. To the 368 extent savings were derived by manipulation of both the revenues and the 369 negotiation processes, I believe that the Company should be precluded from 370 benefiting from savings generated at ratepayers' expense. 371 Q. To what relevant information are you referring? 372 Α. Through my investigation since July 2002, I have determined that Nicor withheld 373 information from Staff and manipulated both its revenues and its negotiation 374 processes in order to establish a higher FDA. This higher FDA, in turn, resulted

in a PBR benchmark that was more favorable to the Company. I note further that

Nicor's manipulation not only affected the benchmark and the computation of savings under the PBR program, but also served to directly increase costs to ratepayers in 1999. Below, I provide an explanation of the two issues.

Negotiations with Midwestern & Tennessee Pipelines

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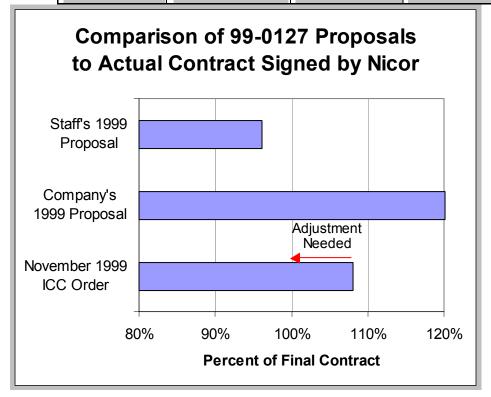
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- Q. Why was Nicor negotiating with Midwestern and Tennessee Pipelines?
- 381 Α. Midwestern Gas Transmission Company ("Midwestern") and Tennessee Gas 382 Pipeline Co. ("Tennessee") are two interstate pipelines that Nicor uses to 383 transport gas to its system. In 1999, Nicor had contracts in place with both 384 pipelines. These contracts were set to expire in October 2000. It was typical 385 practice for Nicor to start negotiating new contracts with the pipelines well in 386 advance of October 2000 to ensure that service was not interrupted. Nicor does 387 not typically purchase capacity from the pipelines at maximum rates, but rather it 388 uses its size and market position to negotiate discounts.
 - Q. What was Staff's issue during the 1999 PBR case?
- 390 A. Nicor had received an initial offer from the pipelines for the new contracts that
 391 would go into effect in October 2000. As with most negotiation processes, the
 392 first offer is often the highest offer and is unlikely to represent the final accepted

393 terms. Nicor attempted to use the initial offer as the basis for setting the FDA. 394 Staff believed it was extremely likely that Nicor would negotiate rates lower than 395 the initial offer, which would then leave the benchmark artificially high and 396 detrimental to ratepayers. Thus, Staff recommended that the Commission 397 assume a certain percentage discount would be achieved with Midwestern and 398 Tennessee. 399 Q. What did the Commission decide on this issue? 400 Α. The Commission agreed that a discount was likely, although it disagreed with 401 Staff on the magnitude of this discount. Ultimately, the Commission decided that 402 a discount half the size of Staff's proposal was likely. 403 Q. Did the Company actually realize a discount from the Midwestern/Tennessee 404 negotiations? 405 Α. Yes. The actual discount received was greater than the value accepted by the 406 Commission, but slightly lower than Staff's prediction. However, the results 407 validated Staff's argument that Nicor could realize significant discounts during the 408 negotiation process.

Annual Cost for New Midwestern / Tennessee Contracts						
October 1999	November 1999	Company's	Staff's			
Final Contract	ICC Order	1999 Proposal	1999 Proposal			



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Q. Did Nicor do anything deceitful during the 99-0127 proceeding to overstate the likely Midwestern and Tennessee contract costs and inflate the benchmark?

Yes, it now appears that Nicor deliberately halted negotiations with Midwestern and Tennessee until the case was nearly over. Nicor knew that a discount was likely to occur as a result of negotiations. If Nicor had negotiated its discount before the proposed order was issued, the benchmark would have likely reflected

416 the entire amount of the discount. This would have correctly lowered the 417 benchmark and made it harder for Nicor to profit from the PBR. 418 Faced with this prospect, it appears that Nicor deliberately put a halt to 419 negotiations with Midwestern and Tennessee during the case. Nicor resumed 420 negotiations sometime after the HEPO was issued knowing that no more 421 evidence would be entered into the record at that point. Nicor finalized its 422 contracts in October of 1999, which was one month before the Commission 423 issued its final order. 424 Q. What evidence do you have to substantiate your claims that Nicor deliberately 425 halted negotiations with Midwestern and Tennessee until Docket 99-0127 was 426 nearly over? 427 Α. 428 there was the following exchange: Q. 429 430 431 xxxxxxx? 432 433 434

435 436 437 438 Notably, Mr. Gilmore was the Company's witness on this issue in Docket 99-439 0127 and was responsible for negotiating contracts with pipeline companies. I 440 have since confirmed that Nicor had agreed to terms with Midwestern and 441 Tennessee on or about October 18, 1999. (Attachment D, Nicor Response to 442 ICC 27.01). 443 Nicor received notice from Tennessee Pipeline as far back as December 18. 444 1998 stating that the current contract would expire November 1, 2000 445 (Attachment E, NIC 114589-92). Furthermore, Nicor was notified that it must 446 notify the pipeline by October 31, 1999 on its intentions to negotiate a new 447 contract, otherwise the contract would automatically renew at maximum rates. 448 449 xxxxxxxxxx. Therefore, Nicor knew it had to negotiate a new contract by October 450 31, 1999. Nicor had almost a full year from its first notice in which it could 451 negotiate a new contract. However, Nicor waited until the eleventh hour to come 452 to an agreement – right after the initial briefing phase had been completed. By 453 doing this, Nicor avoided the inclusion of the new, lower rates in the FDA. This 454 benefited Nicor while it harmed ratepayers.

455 Q. What is your proposal in light of this new information?

456 A. In light of Nicor's deliberate delay in concluding negotiations, I recommend that
457 the Commission apply the entire amount of the actual discount to the FDA. This
458 would effectively lower the benchmark for 2000, 2001, and 2002. Table 2 below
459 shows this adjustment, which amounts to a reduction in the benchmark of
460 \$983,511 for each of the three years that the PBR was in effect.

Table 2				
Midwestern & Tennessee Costs in Benchmark				
2 Year Average Based on 1999 Order (Nov 99) 2 Year Average Based on Actual Contract (Oct 99)	\$ xxxxxxxxxx \$ xxxxxxxxxx			
Value of Proposed Adjustment to Benchmark	<u>\$ 983,511</u>			

Capacity Management Credits

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Q. What are capacity management credits?

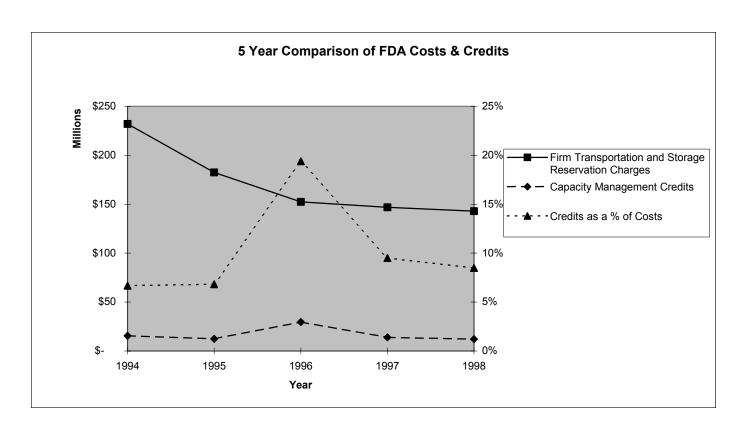
A. The Company reserves a large amount of interstate pipeline capacity to meet system demand during the coldest peak days. During warmer, non-peak days, there is an excess of capacity that goes unused by the Company. Nicor can use this excess capacity to meet the needs of marketers and other utilities by

conducting capacity releases, buy/sells, supply sales, and storage credits. Under traditional PGA regulation, the Company flows these revenues, which are classified generally as capacity management credits, back to ratepayers. Under the PBR, these capacity management credits continued to lower costs for ratepayers, but were shared 50/50 with the Company. Thus, in Docket 99-0127, a projected amount of such capacity management credits was included in the PBR benchmark—specifically as a reduction in the FDA.

- Q. What amount of capacity management credits was built into the FDA in Docket 99-0127?
- 476 A. In Docket 99-0127, the Commission used a modified version of the most recent
 477 twelve months of capacity management credits (as of October 1999) as the basis
 478 for setting the FDA. The modification, which Staff argued against, took a ratio of
 479 the last twelve months of FDA costs vs. the FDA costs established in the
 480 benchmark. This ratio adjustment, which was opposed by Staff, lowered the
 481 capacity management credits by approximately \$800,000, and resulted in an
 482 established benchmark credit of \$8,185,672.
 - Q. What was the stated rationale for multiplying the last twelve months of capacity management credits by the ratio of the last twelve months of FDA costs vs. the FDA costs established in the benchmark?

486 Α. Nicor argued that its costs to reserve transportation had been declining, and thus 487 the market value for that capacity was also declining. The Commission agreed 488 with the Company and ordered it to determine the ratio of decline for the FDA 489 costs, and apply that ratio to the credits. 490 Q. Did Staff agree with Nicor's argument that capacity management credits were 491 declining and would decline in the future? 492 Α. No. Staff demonstrated that even though the Company had cut its FDA costs by 493 over \$89 million over a five-year period, the capacity management credits 494 decreased by only \$3.3 million (Staff's Brief on Exceptions, 99-0127, pp. 3-4). 495 The credits in 1998 were actually higher as a percentage of FDA costs than they 496 were in 1994. So Staff argued there was no evidence that capacity management

credits would decrease much, if at all during the PBR program.



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- Q. Did the Company have any motivation to improperly inflate the benchmark with respect to capacity management credits?
- A. Yes, I believe it did. It was predictable that the Commission would, in some form, use recent capacity management credits in establishing the FDA. Because the credits effectively reduce the benchmark and make it harder for the Company to achieve "savings" relative to the benchmark, Nicor stood to gain by somehow lowering the 1999 credits. Any reduction in such credits prior to the start of the

507		PBR would not hurt the Company because 100% of the credits would have been				
508		passed back to ratepayers anyway.				
509	Q.	Is there any evidence that Nicor purposely reduced capacity management credits				
510		in 1999?				
511	A.	Yes. Xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx				
512		xxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxxx				
513		003213-003215). Xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx				
514		x xxxxxxxxxxxxxx xx x x x x x x x x xxxx				
515		"Cap Release" is referring to capacity releases, which are part of the capacity				
516		management credits. The most obvious meaning of "sandbag" is that the				
517		Company would attempt to hold down capacity releases and other capacity				
518		management credits in the coming year so that the benchmark would be set at a				
519		more favorable level for the Company. Xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx				
520		xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx				
521		Q. xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx				
522 523 524		A. XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX				
525		Q. xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx				
526 527		A. XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX				

528 529		Q. XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
530 531		A. XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
532		Q. xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx
533		A. xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx
534 535		Q. XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
536		A. xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx
537	Q.	Are the actual numbers consistent with the Company "sandbagging" during
538		1999?
539	A.	Yes. Refer to Table 3 below. In 1999, the credits dropped to the lowest level in
540		recent history, down \$1.5 million from the previous year. But as soon as the PBR
541		went into effect, the credits shot up by more than \$8 million. Not only did the
542		Company under perform during 1999, but also it outperformed historical levels
543		during 2000. This is contrary to the position that the Company so vigorously
544		argued in 99-0127, where the Company asserted that credits would continue to
545		decline into the future due to lower prices and lower market demand. This
546		argument was obviously extremely faulty.

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Table 3 Capacity Management Credits					
1998	1999	2000			
\$ 12,114,653	\$ 10,568,336	\$ 18,673,883			

Did "sandbagging" during 1999 only hurt customers during the PBR, through its effect on the benchmark?

- 550 A. No. It is true that customers were hurt during the PBR by having an inflated
 551 benchmark. However, customers were also hurt in 1999 by Nicor's lax attempts
 552 to earn credits for the ratepayers, of which customers would have received 100%
 553 of the benefits.
- What adjustments do you propose as a result of the Company's manipulation of the 1999 capacity management credits?
 - A. My adjustment is twofold. First, the Company should have worked harder in 1999 to earn credits for customers. By looking at the credits from 2000, one could easily argue that Nicor should have received over \$8 million more in 1999. However, I recognize that the PBR gave the Company incentive to "turn over new stones" to realize more credits. But it is totally conceivable that in 1999, the

Company could have replicated its performance in 1998, where it earned \$12.1 million in credits. I believe that had Nicor not purposely reigned in its efforts to generate capacity management credits in the months prior to the order in the 99-0127 proceeding, it would, at a minimum, have replicated its 1998 performance. Therefore, my first adjustment is to increase the amount of credits received in 1999 by \$1,546,317. These credits should be refunded to customers as part of the PGA reconciliation for 1999.

My second adjustment is to lower the FDA portion of the benchmark for years 2000-2002. I am making this adjustment to reflect the higher level of capacity management credits that should have been "built into" the FDA. The \$8,185,672 level of credits was inaccurate for two reasons: 1) the use of the most recent year's worth of credits through Oct 1999, which were artificially low due to Nicor's sandbag strategy and 2) Nicor's self-serving and faulty argument that the credits should be further lowered to reflect a weaker outlook on future credit opportunities. Thus my adjustment would establish the benchmark value of capacity management credits to be \$12,114,653. This in turn would lower the FDA by \$3,928,981 for each of the three years it was in effect.

578 Mr. Feingold's Alternative View of Savings Under the Benchmark 579 Q. Mr. Feingold states on page 42 of his direct testimony that one type of savings 580 generated for ratepayers was due to the difference between Nicor's actual gas 581 costs and the benchmark gas costs. Do you agree with this statement? 582 Α. No. The customers NEVER realize savings due to the difference between the 583 benchmark and actual gas costs. In fact, the customers pay Nicor 50% of this 584 difference. Any savings the customers realize are due strictly to the lowering of 585 actual gas costs, irrespective of the benchmark, and even then customers realize 586 only 50% of such savings. Conversely, Nicor realizes savings ONLY from the 587 difference between the benchmark and actual gas costs. Lowering actual gas 588 costs is only profitable to Nicor if it increases the spread between gas costs and 589 the benchmark. 590 Therein lies the problem, which is that Nicor had an incentive to inflate the 591 benchmark both during its creation and during the operation of the PBR program. 592 If Nicor could establish a benchmark that was greater than normal gas costs, 593 Nicor would be able to profit from "savings" without truly lowering gas costs and

1999, as I illustrated in my arguments regarding the Midwest/Tennessee

contracts and the capacity management credits. Nicor was also able to

showing real savings for customers. Nicor did indeed inflate the benchmark in

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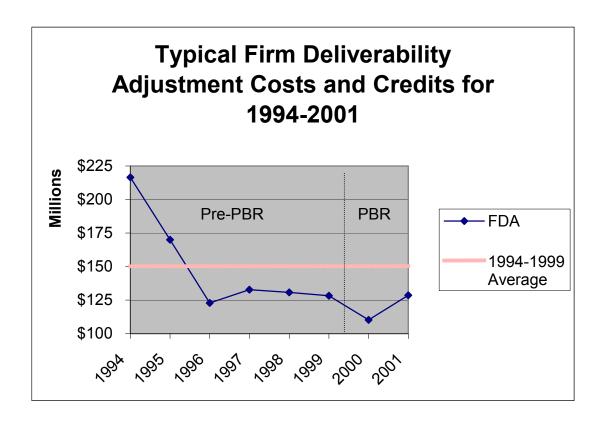
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manipulate and inflate the benchmark during the PBR program by using 598 schemes such as virtual storage and infield transfers (Exhibit 1.0, Section IV-D.). 599 Therefore, Nicor was able to show "savings" that allowed them to profit while 600 actually increasing gas costs for ratepayers. 601 Q. Mr. Feingold states on page 44 of his direct testimony that actual average gas 602 costs for 1994-1999 were significantly higher than the benchmark. He goes on to 603 state that Nicor would have to lower its gas costs by approximately \$29 million 604 each year of the PBR program just to meet the benchmark and break even. Do 605 you agree with his conclusions? 606 Α. Absolutely not. This is a case of comparing apples to oranges. More 607 specifically, Mr. Feingold is comparing costs from as far back as 1994 to a 608 benchmark that was created to represent market conditions for 2000 and 2001. Mr. Feingold cannot compare historical gas costs to a futuristic benchmark and 609 610 expect to get meaningful results. 611 Just looking at the costs associated with the FDA shows the fatal flaw in Mr. 612 Feingold's approach. As can be seen from the graph below, the historical costs 613 associated with the FDA fell sharply from 1994 to 1996 and then leveled off 614 through 1999, just before the start of the PBR. Thus, the average costs over the

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six-year period are skewed upward by the high costs of 1994 and 1995. The average from 1994-1999 is not representative of the costs Nicor faced during the life of the PBR program.



Mr. Feingold's analysis is flawed because he compares actual costs from as far back as 1994 to a benchmark that was created to represent actual market conditions for 2000 and 2001. Instead, if he wanted to perform an analysis of historical costs versus the benchmark, he should have used the benchmark formula to calculate a unique benchmark for each of the historical years. The Company and the Commission used this type of approach in 1999 when the

commodity portion of the benchmark was established. In that calculation, five years of historical data was used to establish the commodity adjustment going forward. For each historical year, the actual FDA costs from THAT YEAR were used in the calculation. It is the logical way to compare apples to apples in this instance. Therefore, Mr. Feingold cannot compare historical gas costs to a forward-looking benchmark and expect it to yield meaningful results. Why isn't the FDA from the Order in Docket 99-0127 representative of conditions Q. during 1994-1999? Α. The FDA was created to represent the actual known and measurable pipeline and storage costs and credits during 2000 and 2001. These costs are not static; they can change dramatically from year to year. As the graph showed, the FDA related costs decreased dramatically from 1994-1996. The FDA costs today are nowhere near as high as they were in 1994. Thus any analysis that uses the current benchmark as a comparison to historical gas costs is fatally flawed. Q. The FDA is only one component of the benchmark. Isn't Mr. Feingold's use of the entire benchmark average for 1994-1999 a valid methodology?

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No. As you can see from the table below, the actual average FDA costs during

the 1994-1999 period was \$150 million. The FDA set for the PBR was only \$116

million. Remember that this number was based on ACTUAL COSTS. The difference in the six-year average and the actual FDA is more than \$33 million. Mr. Feingold claimed that Nicor would have to lower costs by \$29 million to just break even (Nicor Ex. 3.0, p.44). However, my calculations show that when you take into account that the \$33 million difference between 1994-1999 FDA costs and the final FDA adopted in 99-0127 represented an actual and verifiable reduction in costs, Nicor actually had more than \$4 million worth of "savings" already built into the other components of the benchmark. In other words, even though the FDA is only one component of the benchmark, its historical variance explains away the entire \$29 million of Mr. Feingold's argument and even adds an additional \$4 million cushion to Nicor's starting point in the PBR. Therefore, Nicor did not have to save tens of millions of dollars just to break even; rather it actually started with a favorable benchmark wherein savings were almost guaranteed by historical standards.

\$ 150,210,866	<6 Year Average
\$ 116,582,612	<fda 99-0127="" order<="" per="" td=""></fda>
\$ 33,628,254	< Difference

Q. Is there any other reason to doubt the validity of Mr. Feingold's conclusion that the Company would have to lower its gas costs by approximately \$29 million each year just to break even?

- A. Yes. It does not make much business sense. In my opinion, Nicor would have never accepted a PBR program that started them \$29 million in the hole, as Mr. Feingold suggests. It would be an extremely risky program for the Company to undertake. Furthermore, at no time during any of the proceedings in 1999 or 2002 did Nicor ever claim that the benchmark was biased against the Company to that magnitude.
- Were the "savings" realized during the life of the PBR due to better planning, improved purchasing strategies, or other efficiencies on Nicor's part, as suggested by Mr. Feingold?
- 670 Α. No. While I do not suggest that every strategy Nicor used ended in failure and 671 losses, apparently most of the Company's strategies to generate "savings" were 672 unsuccessful, even by Nicor's own calculations. By looking at Nicor's year-end, 673 pre-restatement "PBR Buckets" reports, we can see where Nicor estimated that it 674 "saved" money and "lost" money for 2000-2002 (Attachment G, NIC 002777 & 675 Attachment H, NIC 110776). During the PBR program, Nicor attributed \$68 676 million to the LIFO decrement. This is over 81% of the total \$83.4 million in savings for the entire PBR program. Nicor employee, xxxxxxxx, has a similar 677 678 viewpoint:

680	Q. XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX		
681 682	A. xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx		
683 684 685	Xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx		
686 687	Q.		
688	A. xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx		
689	When you consider that the benchmark was inflated, as I have previously		
690	discussed and Mr. Zuraski will explain further, that leaves very little "savings", if		
691	any, that can be attributed to actual improved performance by Nicor. In fact,		
692	according to the Buckets reports referenced above, the Company estimated that		
693	it lost \$37.7 million during the PBR from the Commodity component alone. This		
694	Commodity component measures, among other things, the prices at which Nicor		
695	is purchasing gas for customers. It is fairly clear from these numbers that Nicor		
696	did little, if anything, to actually improve its purchasing strategies to benefit		
697	customers. xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx		
698 699	Xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx		

700		And finally, xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx
701		x x x x x x x x x x x x x x x x x x x
702 703 704		Q. xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx
705 706 707 708		A. xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx
709		Nicor's Improper Practices, Transactions, and Conduct
710	Q.	Has Nicor engaged in improper practices, transactions and conduct during the
711		PBR program?
712	Α.	Yes. Some of these were described in the Lassar report (Attachment I), which
713		was later adopted by the Company.
714	Q.	Would Staff have uncovered any of Nicor's misconduct were it not for the
715		whistleblower memo to CUB?
716	A.	No, it is extremely doubtful that Staff would have uncovered many, if any, of
717		Nicor's improper transactions. In fact, Staff and the other parties had basically
718		concluded the PBR review case of 02-0067 when the whistleblower memo was

distributed. Up to that point, Staff had not identified any of the issues that are a part of our case today. However, Staff did not rely upon the whistleblower memo as a basis for any of its analysis or conclusions. Rather, the whistleblower memo was a catalyst for further in-depth discovery from Staff and other parties. It is the information from data request responses, testimony, and depositions that Staff is relying upon as a basis for its positions.

- Q. Regarding the reasons why Staff didn't uncover Nicor's schemes during the 99-0127 and 02-0067 docketed cases, did Staff fail to ask the right questions during those cases?
- A. No. Staff did its best to investigate all angles during those two cases, given the complexity and uniqueness of the issues at hand. In fact, as I will show, Staff and the intervening parties did indeed ask questions during the cases that would have revealed some of Nicor's improprieties, had Nicor answered completely and truthfully.

Buckets Reports

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734 Q. What are the "buckets reports"?

- 735 Α. The buckets reports are spreadsheets created by the Company to quantify and 736 categorize the savings and losses under the PBR. They were distributed 737 throughout the Company on a monthly basis, updating management on the 738 status of the program. At the end of each year, a final buckets analysis was 739 performed which would show the same amount of savings that was reported to 740 Staff. On each report, the total savings under the PBR was calculated up to that 741 point in the year. Then that total was categorized under headings such as 742 "Decrement Value" and "Storage Credits" among others (Attachments G & H).
- 743 Q. Were the buckets reports accurate?
- 744 Α. They were the most accurate reports that the Company had which analyzed and 745 quantified the savings and losses under the PBR. While a few of the numbers 746 were the best estimates of the Company, many of the numbers were known to be 747 accurate. It is important to remember that was the report that managers relied 748 upon to monitor and analyze the profitability of the PBR. This report was not just 749 some "back of the napkin" calculation; this report was the Company's best 750 attempt to track tens of millions of dollars of savings and losses. It is clear that 751 Nicor's own employees believed in the accuracy of the buckets reports:

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753 754	Q. XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
755	A. xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx
756	xxxxxxxxxxxx
757 758 759	Q. XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
760	A. xxxx
761 762 763	Q.
764	A. xxxx
765	Q. xxxx
766 767	A. xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx
768 769	Q.
770 771 772	A.
773	xxxxxxxxxxx:
774 775	Q. xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx
776	A. xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx
777	Q. xxxxxxxxxxxxxxxxx
778	A. xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx

Q. Did Staff ever see the buckets reports prior to reopening of 02-0067 due to thewhistleblower fax?

A. No. However, it is my belief that Staff should have been given access to these reports in response to several data requests. In early 2002, Staff sent request number POL 1.2 (Attachment J), which asked Nicor to describe all actions taken by Nicor to save money under the PBR, and to identify the savings for each action. Nicor responded with a very vague and incomplete description of its actions and said, "The Company does not track gas costs or savings in the manner requested."

Staff followed that response with another request, numbered POL 2.1 (Attachment K). This request asked for, among other things, "the Company's best estimate of the total cost of the actions taken by the Company to reduce gas costs since the inception of the GCPP." The Company again responded that it was "impossible" to identify either the actions taken or the costs associated with such actions.

Finally, CUB also sent a request to Nicor, numbered 1.17 (Attachment L), which asked the Company to categorize the savings realized under the PBR. Many of the categories listed by CUB were categories that Nicor itself had identified in

797		response to POL 1.2. There was also a catchall category called "other". Once
798		again, Nicor responded by saying that categorized savings were not available.
799		Nicor's repeated assertions that it was not able to quantify or categorize savings
800		into individual components was untrue. Nicor had been collecting this exact
801		information since early 2000. Not once did Nicor provide Staff or CUB with the
802		buckets reports, or even so much as admit to their existence. It is my belief that
803		Nicor didn't want Staff to see these reports because they would have alerted
804		Staff to actions such as the LIFO decrement.
805 806	Q.	Do any of Nicor's employees think that the buckets reports should have been provided in response to these data requests?
807	A.	Yes. Xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx
808 809		xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx
810		A. xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx
811 812		Q. xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx
813		A. XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
814		XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX

815 816 817	Q.	xxxx xxxxxxxxxx xxx xxxxx xxxxxx xxxxxx
818	A.	XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
819 820 821	Q.	XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
822	A.	XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
823		

Directive to Hide LIFO from Staff

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- Q. Did Staff realize Nicor's potential to profit from the low cost LIFO storage gas through the PBR?
- 826 Α. As I stated earlier, Staff was not aware of this possibility. Furthermore, Nicor did 827 its best to ensure that this possibility never crossed the minds of Staff. Nicor 828 repeatedly told Staff in data request response and witness testimony that it could 829 not manipulate storage injections and withdrawals. Moreover, Nicor employees 830 believed there was a corporate directive that no employee was to inform Staff of 831 the LIFO benefit unless asked a direct question. Even when Staff did ask direct 832 questions, such as POL 1.2 and 2.1, Nicor was not forthcoming with regards to 833 834 835 836 and even false responses to Staff's data requests during 99-0127 and 02-0067.
 - Q. What do you mean when you say that Nicor had a corporate directive to hide the LIFO benefit from Staff?
- 839 A. Several Nicor employees have stated that they understood that they were not 840 supposed to highlight the LIFO benefits to Staff. It is unclear who gave this

841	directive, but it seems to be a widely shared belief that there was indeed such a		
842	directive. Consider the sworn depositions of several Nicor employees:		
843	XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX		
844 845 846	Q. xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx		
847	A. xxx		
848	Q. xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx		
849	A. xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx		
850	Q xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx		
851	A. xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx		
852	xxxxxxxxxxxxx		
853 854	Q. xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx		
855 856 857	A.		
858			

858	XXXXXXXXXXXX
859 860 861	Q. xxxxxxxxxxxxxxxxxxxxxxxx x x x x x x
862	A. xxx.
863	Q. xxxxxxxxxxxxxxx
864 865 866	A.
867	xxxxxxxxxxxxxx
868 869	Q. XXXXXXXXXX XXXXXXXXXXX XXXXXXXXXXXXX
870	A. xxx.
871	Q. xxxx
872 873	A. xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx
874	Q. xxxxxxxxxxxxxxx x x
875 876	A. xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx
877 878	Q. xx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx
879	A. xxx.
880 881	Q. xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx
882	$A. \qquad xxx x x x x x x x x x x x x x x x x $

883		$Q. \qquad x \times x \times x \times x.$
884		$A. \qquad x \times x \times x$
885		$Q. \qquad x \ x \ x \ x \ x \ x \ x \ x \ x \ x$
886		A. xx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx
887		It is evident from these statements that the directive to hide the LIFO benefit from
888		Staff originated at the beginning of the 99-0127 case. Xxxxxxxxxxxxxxxxx
889		x x x x x x x x xxxxxxxxxxxxxxxxxxxxxx
890		xx
891		xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx
892		refrain from discussing LIFO layers in any filing, testimony, or data request
893		response.
894	Q.	Do you have any written documentation of this directive to hide the LIFO strategy
895		from Staff?
896	A.	Yes. NIC 011420-22 (Attachment M) is a memo from Company employee
897		xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx
898 899 900 901 902 903		"XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX

904		Up to that point, there had been no LIFO decrement under the PBR program.
905		XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
906		xxxxxxxxxxxxxxx x x xxxxxxxxxxxx
907		××××××××××××××××××××××××××××××××××××××
908		x x x x x x x x x x x x x x x x x x x
909		x x xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx
910		xxxxxxxxx
911 912		Q.
913		$A. \qquad xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx$
914	Q.	Did Nicor in fact change the format of these reports to Staff, thus obscuring the
915		LIFO benefit?
916	A.	Yes. On the first two quarterly reports, there was a category named "Gas
917		Commodity". If there had been any LIFO decrement in the first two quarters, it
918		would likely have been classified under its own category, much as it is in the
919		monthly buckets reports. However, when there finally was a LIFO decrement in
920		the third quarter, Nicor changed the name of the "Gas Commodity" category to
921		be "Gas Commodity and Storage". By accounting for the LIFO decrement in this
922		hybrid category. Nicor effectively hid the decrement from Staff, as it was

923		impossible to determine from where the savings actually came. So not only did
924		Nicor fail to tell Staff during the 99-0127 case that it would be monetizing the
925		LIFO layers, Nicor also went so far as to alter reports so that its secret would be
926		concealed.
927	Q.	Does this conclude your direct testimony?
928	A.	Yes.